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ABSTRACT

Economic self-sufficiency is the key to reviving and maintaining a strong Indian culture; therefore, the goal of the Passamaquoddy Enterprise Zone Project was to develop an understanding of the types of business that do well in the area and those that do not do well. The study used interviews with business managers as well as case studies of 12 existing businesses. Positive factors affecting the business climate were: a large "captive" labor force; tax free status; federally funded training programs through the Carl D. Perkins Vocational Training fund; availability of space; preferential government contracts; priority for federal grants; and the Tribe's financial assets, which make leveraging possible. Deterrents for prospective businesses were: social problems in the Tribe; inadequate infrastructure (water and sewage); geographic isolation; potential lack of support by tribal government; and lack of a sizable skilled and reliable work force. The three types of businesses in the case studies were: joint ventures between the Tribe and private firms; Indian-owned entrepreneurships; and tribal enterprises. The appendix, which makes up over three-fourths of the document, describes each business in terms of business history, business operation, work force, goals and expectations, and findings and conclusions. (KS)

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BUSINESS CLIMATE AND DEVELOPMENT VENTURES IN INDIAN COUNTRY: THE CASE OF THE PASSAMAQUODDY TRIBE IN WASHINGTON COUNTY, MAINE

Passamaquoddy Enterprise Zone Study Team
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(Edited by Diana Scully)
Eastern Maine Development Corporation
August 1990

This paper was prepared as a deliverable under an Administration for Native Americans (ANA) Grant (#90NA0803/01) to the Passamaquoddy Tribe (ME) to study the applicability of the enterprise zone concept as an economic development tool in Indian Country.

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FOREWORD

This paper examines the relationship between **business climate** and **development ventures**, as experienced by the Passamaquoddy Tribe of Maine. Our hope is that the lessons learned from one tribe can be of help to others engaged in development work in Indian Country.

This is one of several papers coming out of a research effort, funded by the Administration for Native Americans. This paper is designed to look at how the business climate, including specific incentives and disincentives, significantly affects business development efforts on or near Indian reservations.

One way to do this, for us, was to acquire an understanding of the history and management practices of businesses that have done well or succeeded on the two Passamaquoddy reservations and of those that have not. From this understanding, we can infer with confidence what the necessary preconditions are for successful business ventures in Indian Country.

The core of this paper, then, is based on case studies of twelve Passamaquoddy businesses, as well as interviews of individuals doing business on the two reservations. The methodology involves primarily interviews of players who have had key roles in the genesis and implementation of major business projects. When possible, tribal files on these projects were studied.

Early drafts of the paper were circulated among the people interviewed for comments and feedback about the accuracy of facts and their interpretation. Several responded by providing additional information or further clarification.

We believe that this is a document that contains very rich contextual information about what can happen to or for a business project on an Indian reservation. We further believe that these case studies, along with our findings and conclusions, provide useful indicators of the "Do's and Don'ts" in development work in Indian Country.

Robert P. Ho, Director
Office of Training and Development
Pleasant Point Passamaquoddy Tribe

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I. INTRODUCTION

Economic Self-Sufficiency

Many Native People feel that the key to reviving and maintaining a strong Indian culture lies in attaining economic self-sufficiency. So long as they are economically dependent on federal and tribal government subsidies, they cannot take control of their own lives and destinies.

Economic self-sufficiency is an essential antecedent to a healthy self-sustaining community. The Passamaquoddy Enterprise Zone Project was based on the assumption that private businesses providing employment opportunities on or near the reservations are essential antecedents to economic self-sufficiency.

The way to achieve economic self-sufficiency has not been clearly defined. There has been a long history of failures in economic development strategies on Indian reservations. However, according to a publication by the National Center for American Indian Enterprise Development, there also have been some notable successes. (Stallings, S. & Allison, M., March 1989, Joint Ventures: Creating Profits and Jobs Through Successful Partnerships and Teaming Arrangements Between Private Industry and American Indian Tribes.)

Strategies used on the Penobscot and Passamaquoddy reservations in Maine are considered successful in terms of establishing and maintaining healthy businesses.

Economic Development: Difficulties and Challenges

Many factors make economic development on Indian reservations difficult. In the words of the U.S. Department of Interior's Task Force on Indian Economic Development, these include *physical isolation, inadequate transportation systems, harsh climates, and other geographic disadvantages*, as well as low skill levels, inconsistent tribal government regulations, and ambiguity of tribal support for business development. In addition, there must be *recognition of the social and educational foundations that must be laid and other major changes in the Indian reservation economic environment that are needed if development is to succeed.* (Nelson et al, Report of the Task Force, July 1986, p. 79 and p. 31.)

The tribes themselves must have a commitment to economic development. They must be willing to support businesses through tribal regulation and concession and to permit businesses to operate independently on sound business principles. They also must be willing to provide support for education.

Some believe that for a business to succeed in employing the reservation work force, its operation needs to take into account

cultural norms. People may need to be given the chance to define their needs and preferences for development.

This Study

Notwithstanding the difficulties and challenges of economic development in Indian country, the purpose of the Passamaquoddy Enterprise Zone Project was to determine the extent to which the enterprise zone concept is applicable to the two Passamaquoddy Reservations in Eastern Washington County. To help make this determination, a study of the business climate was undertaken. The study focused primarily on the Pleasant Point Reservation and the towns of Eastport and Perry which abut it, and on the Indian Township Reservation and the town of Princeton which abuts it.

The principal factors examined were those related to the advantages and disadvantages of doing business in the area: the quality and availability of the work force; the infrastructure as it affects the ability to get supplies in and product out; and the business climate in general. Because the area is geographically isolated and economically depressed, and because the reservations may be eligible for enterprise zone status, incentives businesses want or might want in order to locate on or near the reservations also were examined.

Information gathered through this study can be used to develop:

* A list of possible incentives that the State and Federal Governments could offer to encourage business development on or near the reservations;

* A strategy for marketing the area to businesses that are engaged in activities that might benefit from a partnership with the Passamaquoddy Tribe or from an expansion to the one of the Passamaquoddy Reservation areas; and

* A strategy to help indigenous businesses start up on or near the reservations.

Methodology

A goal of the Passamaquoddy Enterprise Zone Project was to develop an understanding of the types of business that do well in the area and those that do not do well. Because the quality of the business climate tends to be a subjective judgment based on the needs of particular businesses, interviews were conducted with people running businesses in the area, particularly those related to the Tribe or tribal members, both on and off the reservations. In addition, case studies of twelve existing businesses were conducted.

The findings of the interviews and case studies are summarized in this paper. The detailed case studies are included in the appendix.

II. FACTORS AFFECTING THE BUSINESS CLIMATE

Overview

As a result of its examination of factors affecting the business climate on and near the two Passamaquoddy reservations, the Passamaquoddy Enterprise Zone Study Team found that there are important advantages, as well as some difficulties, in locating a business on or near them.

One of the principal advantages is the Tribe's willingness and ability to become an ownership partner in business ventures. It can leverage capital and work with private sector businesses in locating them on or near the reservations. It also has a large "captive" labor force, which, when respected and properly trained, has proved to be creative, loyal and hard working.

The two reservations successfully have used a number of incentives that are already in place to attract businesses to the area. To begin with, reservation property enjoys tax-free status.

However, the geographic isolation of the reservations contributes to transportation and infrastructure difficulties, and a number of reservation residents face substance abuse and social problems.

Financial Assets; Leveraging

A major incentive to businesses are the Tribe's financial assets. The result of sound business investments made by the Tribe with funds received from the Land Claims Settlement, the assets present a unique opportunity for developing partnerships and investing in businesses on or near the reservations. The assets are available to leverage business ventures for both existing and new enterprises.

Leveraging has been used successfully with at least two businesses located at Indian Township and to set up an industrial facility to lease to an independent manufacturing firm near Pleasant Point. Leveraging also was used to set up a modular housing business near Pleasant Point, which did not succeed.

Vocational Training Programs

Another advantage of locating a business on the reservations is the availability of their vocational training programs, funded by the Carl Perkins Vocational Education Fund.

In conjunction with this program, the Tribe has established a "vestibule model" at Indian Township, set up to screen and train employees for specific start up businesses. The trainer and the trainees are paid out of the vocational education funds for the

duration of the training period (which has lasted up to five months). At Pleasant Point, the Tribe has established a skills training center that focuses on cabinet-making and construction.

The vocational training programs enable businesses to locate on the reservation, without taking undue risk for the costs of training potential workers. Even though there is high unemployment on the reservations, a number of people are difficult to employ because of their lack of education and skill levels, as well as their view of the business work ethic. This program has been credited with helping to make business ventures possible and successful on the reservations. Many feel that, without this, the costs of developing a reliable work force of reservation residents would be prohibitive.

Buildings and Space; Infrastructure

A particularly important advantage of locating a business on or near one of the reservations is the availability of space. Both have buildings in place, and Indian Township has received funding approval from the Economic Development Administration to construct an industrial building to be used for the planned expansion of two of the businesses already located there.

However, the infrastructure of each reservation is not adequate at present for intensive development, although it has managed to serve the businesses in the area up to this point. The water and sewer systems serving the reservations are inadequate for the use they get and will need to be replaced in the near future. Indian Township is undergoing a facilities study to upgrade its sewer system. Pleasant Point, too, is beginning to study its need for upgraded sewer and water facilities.

This situation may be one the State and Federal Governments could ameliorate by contributing to the cost of building up the needed infrastructure to make the area more attractive to business development.

Preferential Contracts; Grant Priority

Preferential contracts with the Federal Government can be used to guarantee a level of business for Indian-owned firms. Even though such contracts have not been a factor to date in business decisions to locate on or near the Passamaquoddy reservations, they are an incentive for businesses to do so. Even though few existing Passamaquoddy-owned businesses have taken advantage of these contracts, several are now exploring the possibilities of entering into them.

Preferential contracts are available through the Buy-Indian Act administered through the Department of Interior; the minority set-aside programs administered by the Department of Defense; and the 8(a) and Small Disadvantaged Business programs of the Small Business Administration. The Buy-Indian Act requires that businesses must be 100% owned and managed by Indians in order to be eligible for contracts. The Department of Defense has adopted

the SBA 8(a) eligibility criteria, which permit firms to participate that are 51% Indian owned, are managed by Indians, and whose minority owners are economically disadvantaged. The duration of 8(a) status is limited to seven years and 8(a) contracts are negotiated rather than competitively bid. (Nelson, et al.)

The Tribe also has priority in obtaining federal grants, including Economic Development Administration Grants, Community Development Block Grants, and formerly Urban Development Action Grants.

Location; Transportation

As is true for a number of Indian reservations nationally, the Passamaquoddy reservations are geographically isolated. They are a long distance from markets, and the road system is not conducive to easy overland travel. According to a business person interviewed by the Passamaquoddy Enterprise Zone Study Team, there is no guaranteed one-day service by either Federal Express or U.P.S. In addition, the winter weather makes travel hazardous on occasion and keeps some people from getting to work.

It also was noted during interviews that there is only one trucking firm, St. Johnsbury, that serves the area regularly, and that the dock facility in Eastport is underfunded and not competitive with facilities on the other side of the Bay in Canada. In addition, residents of Eastport complain about the truck traffic going to and from the docks loading raw wood for export. There is an airport in Princeton, but it is apparently not used a great deal for business purposes.

Tribal Government

There are a number of perceptions about Tribal Government that imply that it might be a disadvantage to locate businesses on the reservations. These include:

* Sometimes it is not clear whether or not the Tribal Government supports a business.

* Sometimes, when there is support, it may not transfer from one elected leadership to the next.

* Sometimes it seems that Tribal Government does not support individually owned and managed Indian businesses.

* Sometimes Tribal Government focuses on the social and political benefits of businesses as much as on the profitability of them. When tribal leadership gets involved in business decisions, they tend to hire more people than needed, regardless of their ability to perform the jobs, and to pay them more than the business can legitimately afford.

* Sometimes Tribal Government becomes involved in the business and influences decision-making.

Work Force

The work force is a major factor affecting the business climate. The Passamaquoddy Enterprise Zone Study Team spoke with people living on the reservations to find out what types of work they want to do and what skills and education they have. The team also conducted surveys of residents of the reservations at both Pleasant Point and Indian Township. The results, described in another paper written by the team, corroborated comments made by the business people interviewed.

One concern of reservation residents is that there needs to be more work available for male tribal members. Many feel that most of the manufacturing firms located on the reservations offer "women's" work. There is a fairly large untapped labor force of men interested in "men's" work. The opening of the fiber extrusion plant near Pleasant Point, which employs primarily men, has begun to address this concern.

Reservation residents are interested in construction work, handcraft and creative work, and entrepreneurial ventures. Firms employing people from the reservations have involved stitching, carpentry, electronics, and now fiber extrusion. Each has found suitable employees from the reservations and surrounding areas.

The experience of reservation businesses has been that many tribal members have a great deal of manual dexterity and are creative and quick to learn. They work well in an environment that fosters participation in decision-making. Thus, tribal members are a resource to businesses seeking to locate on or near the reservations, especially if training and counseling programs are offered. In addition, the Washington County work force as a whole can be good and reliable, particularly for piecework or seasonal employment.

At the same time, a difficulty in locating a business on or near the reservations has been the lack of a sizable skilled and reliable work force. As in the surrounding area in Washington County, many in the unemployed reservation work force have not attained high levels of education and skill, are not motivated to work, and have limited job experience.

Many reservation residents are not used to a structured work environment and have grown up as wards of the government, with little sense of taking financial responsibility for themselves. According to some of the business people interviewed, many in the eastern Washington County work force have a "welfare mentality". People have found ways to make livings (by combining seasonal work, unemployment benefits, welfare, workers' compensation benefits, and working under the table) that suit their lifestyles better than working year-round in full-time jobs.

A number of reservation residents suffer from substance abuse and social problems. There has been progress in improving the health and emotional welfare of the residents. Many tribal members feel that jobs, which bolster self-esteem, are the key to

the on-going success of these efforts. Many have been active in promoting the use of education and health resources as a step toward self-sufficiency for the residents. The Tribe's vocational training program has already been described above.

The Tribe also has an employee assistance program on each reservation. Funded and managed by Tribal Government, both are staffed by tribal members committed to helping people overcome substance abuse problems and become healthier, more productive members of the work force. This program has been described by many as a stabilizing influence on the work force.

Managers

Several Indian and non-Indian business people interviewed noted that a disadvantage of locating businesses on the reservations is the lack of management expertise among many tribal members. They have had little experience with the business world. However, there are a number of people with technical or college education, or who are interested in such education, who would be good managers and administrators, with appropriate training and apprenticeship opportunities.

III. INCENTIVES

State Incentives

Business people interviewed by the Passamaquoddy Enterprise Zone Study Team corroborated information in the literature about enterprise zones, generally, and Indian enterprise zones, specifically. They stated that state tax incentives would not be sufficient to make businesses choose to locate on or near the Indian reservations. Any tax abatements the State could offer would be too small to make any appreciable difference to a new or newly relocating business. State tax and regulatory relief incentives, probably would not achieve their intended results.

However, it was suggested that the State could offer medical coverage to employees of such businesses, which would help defray the costs of employment to the businesses and would be an inducement to employees to seek employment with those firms. It also was suggested that the State could help defray some the costs of Workers' Compensation insurance for firms locating on or near the reservations and employing a given percentage of Indian workers.

Federal Incentives

The business people interviewed did feel that federal tax incentives, such as corporate income tax abatement, investment tax credits, and employee wage and training tax credits, could act as inducements for businesses to locate on the reservations.

However, the U.S. Department of Interior's Task Force on

Indian Economic Development found that these incentives need to be coupled with other inducements, in order to be effective. Other inducements include such things as relief from the regulations of the Bureau of Indian Affairs; preferential contracting with government agencies; and various governmental, tribal and private funding mechanisms.

Another inducement is the Carl Perkins Vocational Education Fund. This has been important to the businesses on the Passamaquoddy reservations, particularly those at Indian Township. By providing a training program and stipend, it has permitted businesses to hire unskilled tribal members without incurring excessive training costs that jeopardize their profitability.

Infrastructure Grants

As important as any of the state and federal incentives is providing some of the physical infrastructure needed by businesses. Federal grants for buildings and upgraded sewer and water systems play a major role in attracting business development. The Bureau of Indian Affairs infrastructure grant and loan programs have been used extensively by tribes nationally.

The Economic Development Administration grant received by the Passamaquoddy Tribe to build the proposed industrial building at Indian Township and the Urban Development Action Grant received to build the manufacturing building currently housing the fiber extrusion plant have been instrumental in attracting businesses to the reservations. Perhaps the State also could contribute to the cost of infrastructure development on the reservations.

IV. CASE STUDIES: FINDINGS AND CONCLUSIONS

Twelve Case Studies

The Passamaquoddy Enterprise Zone Study Team examined and prepared case studies on twelve businesses that operate or have operated on or near the two Passamaquoddy reservations. These are presented in detail in the appendix to this paper. This section summarizes major findings from the case studies.

The twelve businesses studied can be divided into three general categories: joint ventures between the Tribe and private firms, Indian-owned entrepreneurships, and tribal enterprises.

Case studies #1 through #4 examine joint ventures between the Tribe and private firms. Tribal Assets Management, the financial advisory firm retained by the Passamaquoddy Tribe, has been involved in all four:

* Creative Apparel Associates at Indian Township is a partnership with a management agreement between the Tribe and Belfast Manufacturing.

* Fiber Extrusion, Inc., in Eastport, is a wholly-owned subsidiary of Gates Formed-Fibre Products, Inc. of Auburn, Maine, involving a lease arrangement with the Tribe.

* Indian Township Manufacturing is a tribal enterprise with a sole source contract with Gates Formed-Fibre Products.

* Passamaquoddy Homes, Inc., in Eastport, was a joint venture agreement between the Tribe and Makroscan, Inc., the U.S. subsidiary of an international firm. This last venture is the only one of the four that has not been successful.

Case studies #5 and #6 analyze two businesses owned by individual entrepreneurs who are tribal members. Both of these have been successful:

* Dana Trucking is owned and managed by a family who lives at Pleasant Point.

* Passamaquoddy Electronics, is owned by another Pleasant Point resident, who has a sole source contract from Digital Equipment Corporation in Augusta.

Case studies #7 through #12 look at six tribal enterprises, in which there are no outside partners:

* Northeastern Blueberry Company, is located in Columbia Falls and managed by a tribal member living at Pleasant Point. Tribal Assets Management advised the Tribe to purchase 2,000 acres of blueberry land shortly after Indian Claims Settlement. This has been a successful business.

* Passamaquoddy Forest Products Enterprise, located at Indian Township, is managed by a tribal member who is a forester with the Passamaquoddy Forest Service. This is a new business, which appears to be sound.

* The Tribe also has set up four businesses to serve the needs of reservation residents. These include Sipayik Supersaver Store and Wabanaki Mall/Convenience Store at Pleasant Point and Township Grocery Store and the Bingo Operation at Indian Township. Of these, only the Township Grocery Store is not now operating.

Business Success Factors

Factors that have contributed to the success of businesses on and near the reservations are the same factors that lead to successful business ventures anywhere. Businesses that have succeeded on or near the reservations, have:

* Strong management and sound business principles, including appropriate cost accounting and management controls;

* Reasonably secure markets or they understand their markets well and have the ability to accommodate them;

* Consistent personnel policies;

* Made use of the employee assistance programs on the reservations;

* Relevant training programs in place; and

* Followed rigorous standards of quality control.

Tribal enterprises that have not followed business management principles, have:

* Hired more people than they can afford;

* Paid them too much;

* Not paid attention to the maintenance of plant and equipment;

* Not managed inventory well; and

* Required continual subsidy from tribal funds.

The Market

The successful businesses on the Passamaquoddy reservations have been largely dependent on private sector markets.

In two cases (Indian Township Manufacturing and Passamaquoddy Electronics) the markets are reasonably assured as sole source contracts. The businesses were formed to supply a particular purchaser.

In at least five cases (Creative Apparel Associates, Indian Township Manufacturing, Passamaquoddy Forest Products Enterprise, Dana Trucking and Passamaquoddy Electronics) the already successful businesses have explored, or are exploring, government contracts as a way of evening out their market demands and taking advantage of their minority status.

Establishment of Businesses

None of the businesses studied was established solely to take advantage of minority programs. Each was established because it made sense purely from a business perspective.

In the case of the entrepreneurial businesses, there was a perceived need for a product or service and a realistic sense that the business would work. In the case of the tribal enterprises, the labor force and training were available, buildings were in place or could be made available, and the funding was available to underwrite the startup costs.

The Tribe's access to its own money from the assets gained from the Land Claims Settlement Trust Fund, coupled with its ability to obtain federal grants and attract private investment capital, has given it an important advantage in attracting businesses.

The vocational training programs have played an important role in overcoming the disadvantages of poor education and lack of employment skills. The employee assistance programs have helped a great deal with those tribal members who want to work, but who have had substance abuse and other personal problems that interfere with job performance.

The combination of all these factors, coupled with the help of its financial advisor, Tribal Assets Management, have enabled the Passamaquoddy Tribe to establish some very successful business arrangements, without federal or state tax incentives. This is not to say that federal tax incentives would not help even more in attracting businesses to the reservations. However, because of its financial leverage, the Tribe has been able to make great progress in overcoming economic disadvantages without such incentives.

Effect of Economic Development on Work Force

Despite the availability of private sector jobs on and near the reservations, many tribal members do not choose to work at them. Some of the best employees have been attracted to jobs in Tribal Government that pay better, require less effort and offer more flexibility in working hours. It also has been noted that some people do not feel they need to work. Enough money is available from other sources to take care of livelihood needs.

The stitching and serging jobs at Indian Township (Creative Apparel Associates and Indian Township Manufacturing) are considered "women's" work, and men do not apply for them. Of the Indian women who have been trained for the jobs and worked at them for a while, many have left, and the jobs have been filled by non-Indian workers. A number have left during the summers to take care of children and for other reasons.

The electronics assembly plant at Pleasant Point (Passamaquoddy Electronics) also attracts women workers. In contrast to the experience of the stitching and serging operations, a number of tribal members have stayed with their jobs.

Near the Pleasant Point Reservation, the modular housing industry (Passamaquoddy Housing, Inc.) attracted a number of male tribal members. Those jobs, though short-lived, seemed to be more to the liking of those who worked at them. The fiber extrusion plant that has replaced the housing industry (Fiber Extrusion, Inc.) also attracts male workers, and a number of male tribal members seem to be satisfied with those jobs.

Thus, while the goal of economic development in the reservation areas is to provide employment for Passamaquoddy people, it may take more than just jobs to be effective in recruiting and keeping people on the payroll.

Self-Sufficiency: Goal and Assumptions

A number of questions arise about the goal of achieving self-sufficiency among reservation residents through jobs. Although the goal is expressed by many Indian leaders as an essential precursor to re-establishing healthy tribal communities, it is not as straightforward as many believe.

It is frequently assumed that if jobs are made available, people will take them. It is assumed that peoples' dignity will compel them to do what they can to provide for themselves. However, the experience on the two Passamaquoddy reservations shows that this is not universally true. Although there are those who want to work, there also are those who do not want to trade their time and effort for a paycheck.

Efforts to Enhance Job Retention

There have been many efforts to enhance the retention of tribal workers in private enterprise:

* Jobs are now available on and near the reservations.

* Training programs established for tribal members make it more cost-effective for businesses to hire unskilled tribal members than to hire unskilled non-Indian labor.

* Policies are in place that encourage businesses to hire tribal members, whenever possible, and management has shown a clear preference for hiring them.

* Personnel policies are clear and work expectations are straightforward. Management has frequently given the benefit of the doubt to tribal members who appear to be trying to make their jobs work. They encourage those who have personal and substance abuse problems to seek assistance.

Barriers to Job Retention

One reason job retention is difficult to achieve is that Tribal Government competes directly with its own private enterprises for qualified personnel. According to some, it pays above average wages for unskilled jobs and is more lenient in its personnel expectations.

Substance abuse is another barrier to job retention. This problem sometimes creates an incentive to work in order to support the habit, but it also undermines the quality of the work people are able to perform. It also detracts from their ability

to commit themselves to long-term goals of building careers or job tenure records. This problem is being addressed on both reservations by the employee assistance programs and the counseling programs offered through the Health Service.

Another major deterrent to taking and keeping jobs is the welfare system. Many reservation residents come from families who have been dependent on government for generations. They have no expectation of living in any other way. There is no social stigma attached to accepting welfare payments, because for some people, the idea of working to bring home the same or less money makes no sense at all. By accepting welfare, they have their time and their money. This is particularly so since the Land Claims Settlement, which provides each tribal member with a yearly allotment of money from the interest on the tribal trust fund. In addition, it may be that some tribal members feel that government support is part of their birthright ... payment for theft of their land and livelihoods.

Another barrier to taking and keeping jobs may be perceptions about the type of work that is offered. Some tribal members have noted that they feel demeaned by being offered unskilled work that other people with more choices choose not to do.

There may be special deterrents to job retention for women. For example, they may feel more responsible for the care of their children and may not be able to find suitable child care. Instituting a tribal child care program might provide at least a partial solution. It also may be more socially acceptable and expected for women to stay home than for men to do so.

Conclusions

While the Passamaquoddy reservations have experienced success in bringing businesses to their areas, the goal of employing tribal members remains an elusive one. The question remains about how to encourage reservation residents to participate in the work world and, ultimately, to take charge of their lives. Bringing jobs to the reservations may be an important beginning, but more work may need to be done with the people themselves to find out what motivates them and how they want to proceed in bringing in further economic development.

Thus, there may be more questions than answers in terms of how best to accomplish the overall goal of empowering people on the reservations to take control of their lives. Economic opportunities are possible and have worked successfully. However, they by themselves may not provide the whole answer.

Other parts of the answer may be found in the values and traditions of the Passamaquoddy People and in adapting these to the world of today and tomorrow. If the Passamaquoddy People can find this part of the answer, the society at large could benefit from the new vision and direction it may inspire.

CASE STUDY #1:

CREATIVE APPAREL ASSOCIATES
dba Belfast Manufacturing
Indian Township, Princeton, Maine

(Partnership with Management Agreement)

1. BUSINESS HISTORY

Background

In 1988, Tom Tureen of Tribal Assets Management, the financial advisory firm retained by the Passamaquoddy Tribe, sought out George Rybarczyk, owner of J.& P. Apparel in Belmont, Maine, to see if he was interested in a joint venture with the Tribe.

The Tribe offered to buy 51% of the J.& P. Apparel operation on the condition that an additional stitching operation be set up at Indian Township, where there was a large unemployed work force. The Passamaquoddy Tribe would provide the job training for the Indian employees, would lease the land and building to the business to house the additional operation on the reservation, and would provide the cash to buy out 51% of the operating assets of J.& P. Apparel.

Rybarczyk would own 49% of the operation, maintain personal ownership of the Belmont physical plant, and provide the overall management and business acumen, as well as the professional contacts for the on-going operation of the business.

The timing and the terms were right for Rybarczyk, and the partnership, Creative Apparel Associates, was formed and began operation at Indian Township in November 1988.

Benefits

At the time Tribal Assets Management approached Rybarczyk, J.& P. Apparel needed additional production capacity to fulfill contracts to which they had already obligated themselves. Rybarczyk could not find additional employees at his Belmont facility, despite the high unemployment rate in the Belfast labor market area. Thus, the prospect of the reservation's large untapped work force and its vocational training program was a welcome one.

In addition, his business was cash poor. He had a number of unexpected start-up costs when he had bought the operation a few years before. He had been told there were 40 people available to work, but when he bought it, there were only 15, with the others having been let go and having dispersed. He, therefore, had to train an additional 25 people, which put him behind financially

and on his contract work. He had also had to make large capital investments in equipment. The purchase by the Tribe of half his business, therefore, gave him the ability to pay off his debt and to take some money out of his business to pay himself, while increasing his production capacity and putting the day-to-day operation of the business on a more liquid cash basis.

The Partnership Arrangement

J.& P. Apparel split its operating assets with the Tribe 49%-51% as of an agreed upon date to form Creative Apparel Associates as a partnership. Rybarczyk maintained personal ownership of the building, land, and most of the equipment at the Belmont site and leases it to Creative Apparel Associates. The Tribe owns the building on the reservation and leases that to the business. The partnership, Creative Apparel Associates, owns all the equipment on the reservation and three or four pieces of equipment at the Belmont plant.

The cash from the transaction was divided into two major categories. One was for the good faith buyout and went directly to J.& P. Apparel to pay down the original debt of the business and to pay Rybarczyk himself. The other went toward operating cash to make the company more liquid on a day-to-day basis.

Management

Rybarczyk and the Tribe negotiated a management agreement, whereby Rybarczyk is the President and Chief Executive Officer of the business and oversees the financial side of the operation. The partnership hired a non-Indian manager to oversee the day-to-day operation of the business at Indian Township, and Rybarczyk continues to manage the operation at Belmont.

At the time of the Passamaquoddy Enterprise Zone Study Team's interview with Rybarczyk in August 1989, Creative Apparel Associates was still in the process of setting up a board of directors to review the goals and the financial statements. Since that time, the board has been instated and consists of Rybarczyk and his wife and two tribal members.

If the Tribe had not made the offer it did, Rybarczyk would likely have expanded to the Calais area anyway. A stitching firm in Calais was closing and was offering him a good deal to take it over, including a fairly large crew of trained workers. Thus, the timing was right for both parties to form the partnership.

2. THE WORK FORCE

Training Program

Many people in the work force at Indian Township are not trained and not used to the rigor of working regular hours on a daily basis. A vocational training program, financed by the Carl Perkins Vocational Education Fund, has been one of the keys to the success of the operation there. Tribal employees are kept on a training stipend as long as needed to teach them to be reliable and to perform their jobs well.

Rybarczyk's expectation is that ordinarily employees should be "up to speed" within three months. However, some tribal employees have had to learn business work expectations, as well as job skills, and some have had to deal with substance abuse problems. Some employees, who are making a serious effort to learn, have been in the training program as long as five months.

Rybarczyk's observation is that the training program is working well for the business. He feels that the Passamaquoddy trainers and supervisors are probably harder on their own people than he would be, that they have high expectations of them, and that they get discouraged about a perceived lack of progress among some employees.

Employee Assistance Program

Another important benefit the Tribe has offered has been the employee assistance program. This is designed to help tribal members with personal problems that interfere with job performance.

The program has a staff of counselors trained in substance abuse counseling, as well as other areas of personal adjustment difficulty. It is funded and managed by the Tribal Government and has made an important contribution to the success of the training program and to the ability of some Passamaquoddy employees to stay with their jobs.

Tribal Member Employment

Of approximately thirty tribal members who had started the training program, about fourteen or fifteen were still employed at the time of the interview. The partnership had hired an approximately equal number of trained workers from the Calais operation. At the time of the interview, a little over half of the twenty-seven employees at the plant were tribal members.

It was part of the agreement that the operation would employ tribal members where possible. As Rybarczyk noted, it benefits

the business to hire Passamaquoddy People over inexperienced non-Indians, because of the tribal training program. As of August 1989, he noted that the operation is expanding and that he expected to hire an additional eight to ten people before the end of 1989. Up to that point, the business had hired as many tribal members as had applied for work.

Rybarczyk observed that Creative Apparel Associates and the serging operation (Indian Township Manufacturing) had absorbed nearly the entire available work force of women on the reservation. The sewing jobs in both businesses are considered "women's" work, and men do not apply for them.

He noted that jobs for men are needed on the reservation. It was noted by another person, however, that the available work force is artificially reduced by the Tribal Government hiring practices. It has been said that the Tribal Government hires people for higher pay and is less rigorous in its work expectations.

In a subsequent conversation with the plant manager at Indian Township in May of 1990, it was learned that the number of tribal members still working for the company had decreased significantly. Of approximately twenty tribal members trained for the stitching jobs, only two were still working for the company at that time. Most of the rest of the tribal employees had left the summer before, because of difficulty finding child care, among other things.

It was noted that for some of the tribal members, this was their first job, and they are not used to the rigor of having to work all day, five days a week. Many do not need the money; some choose to work to avoid the boredom of staying home. It is felt that people need more of an incentive than boredom to continue working reliably. They need to be able to take pride in what they do, beyond just collecting a paycheck they may not feel they need. According to some sources, many do not have a sense of taking financial responsibility for themselves.

The partnership has an agreement with the Tribe through the training program that if employees quit from either of the two businesses on the reservation, Creative Apparel Associates or Indian Township Manufacturing, they cannot be hired by the other for a year. This is intended to encourage employees to stay with their jobs, even when things are not going as smoothly as they would like.

Current Employment Levels

As of spring 1990, the firm had twenty-seven employees that it has hired and kept. However, as of the first of May, only ten people were working at the Indian Township facility, due to a temporary cutback in the company's volume of work. Two of the

ten are tribal members. This cutback resulted from a drop in the expected volume of orders from one of the manufacturers. It is expected that the work load will increase again quite soon and that the firm will reinstate the remainder of the twenty-seven employees and add more. It is expected that some of the tribal members who quit last summer may come back when the work force is expanded this year.

Tribal Members in Management Positions

Rybarczyk intends to bring tribal members on in management positions as soon as the business can afford it. At the time of the interview, there were several people in other jobs on the reservation that he considered well suited to management.

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3. THE PRODUCT

Major Contracts

Prior to the formation of Creative Apparel Associates, J.& P. Apparel was a machine sewing operation that worked on contracts with major clothing manufacturers stitching together pre-cut articles of clothing. They had major contracts with C.B. Sports, a manufacturer of sportswear, and with Starter Manufacturing, a manufacturer of licensed products, such as jackets, for the major league sports franchises ... baseball, football, basketball and hockey. The same contracts are now worked on at both locations.

Balancing Contracts

Rybarczyk pays close attention to the clothing industry as a whole, in order to anticipate where the demand will be and to be in a position to receive sizable contracts on a continuous basis. He tries to contract with more than one manufacturer, in order not to be vulnerable to the downturns in particular clothing brand trends, or as happened recently, the baseball strike, which precluded the contract to stitch baseball jackets. His goal is to maintain and expand the employment level at both plants. The recent baseball strike and the consequent slowdown of the work underscored the need for a broad base of manufacturing contracts.

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4. GOALS AND EXPECTATIONS

Profitability

According to Rybarczyk, Creative Apparel has been consistently profitable, as was J.& P. Apparel, and he would like to con-

tinue to expand and diversify the operation. His long-range goal is to employ everyone on the reservation who wants to work. He foresees employing 150 to 200 people in the Creative Apparel operation and in sub-contracting operations.

Expanding the Operation

An avenue Rybarczyk has begun to pursue as of May 1990 is expanding his operation to include buying the materials and doing more of the cutting in order to capture a larger share of the value added to the clothing contracts he currently holds. He feels that by doing this, he can make what was a 1.25 million dollar business into a five million dollar business. In order to make this continuing expansion possible, he has contracted with the Tribe to relocate and expand the Indian Township operation to a new industrial building awarded to the Tribe by the Economic Development Administration.

Preferential Contracting

One of the potential advantages of the Creative Apparel Associates partnership is its minority business status. It is considered a small disadvantaged business in a labor surplus area. This permits it to get preferential status on bidding for contracts for government work.

At the time of the interview, Rybarczyk had filled out the necessary government paper work and had been assigned a bidder's number. He planned to pursue some of those contracts, particularly for clothing, such as uniforms and camouflage, and turn most of the Princeton facility over to government work. He would like to have at least 30% of his contracts in government work as a hedge against a downturn in the economy.

As of May 1990, Creative Apparel Associates has been awarded a Department of Defense contract. This particular award was based on its competitive bid, rather than on its status as a small disadvantaged business. There are currently other contracts pending between the Creative Apparel Associates and the Defense Department. By being in a position to bid on these, Creative Apparel Associates is able to diversify its contract base, hedge against fluctuations in the market and work load, and avoid having to lay off employees during otherwise slow periods.

Possibility of SBA 8(a) Status

When Creative Apparel Associates brings tribal members into management, the firm will be eligible for Small Business Administration 8(a) status for government contracts. This will permit them to negotiate with the Federal Government for minority set-aside contracts.

Rybarczyk envisions pursuing a number of different contracts. He has noted the manufacture of tent poles is one of the types of contracts that is consistently available for set-aside contracting. This type of work would employ the men on the reservation. Creative Apparel Associates would bid on the work as the prime contractor and would sub-contract it to Passamaquoddy businesses set up principally to do this particular type of work. It is through this avenue that he ultimately expects to employ 150 to 200 reservation residents.

5. FINDINGS AND CONCLUSIONS

Reasons for Success

The partnership between George Rybarczyk and the Passamaquoddy Tribe has been successful for several reasons:

* The Tribe is vested in the business, having invested its own capital and shares the risk, as well as the profits.

* The Tribe has been supportive of the business decisions the partnership has made, including its decisions on which people to hire or fire.

* The Tribe has had capable interested members to oversee the training program and to act as intermediaries between the Tribal Government and the business.

* The Tribe has had an effective employee assistance program in place to help tribal members with substance abuse problems deal with them in order to be more effective workers.

* There is a group of trained non-Indian workers in the surrounding area available and interested in working at the Indian Township plant.

* The Tribe has had a core group of people who are capable of and interested in becoming involved with the management of the business.

* George Rybarczyk, as President and C.E.O., brought to the partnership astute business leadership, a sensitivity to the needs of the people, and a solid base of contracts.

There is every indication that the partnership will continue to expand and thrive. The company has strong, energetic leadership and continues to look actively for new opportunities.

Employment for Reservation Residents

However, until there are more incentives for tribal members to work at a regular job on a year-round basis, it may be difficult to assure that bringing businesses to the reservations will provide employment for reservation residents. While the experiences of Creative Apparel Associates and other businesses that have employed tribal members have shown that they are capable of high quality work, many of them prefer to exercise other options than working for the available private employers.

CASE STUDY #2:

FIBER EXTRUSION, INC.
Eastport, Maine

(Wholly-Owned Subsidiary with Lease Arrangement)

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1. BUSINESS HISTORY

Background

In the late 1980's, David McMahon and Jerry Smith, President Vice President for Marketing, respectively, of Gates Formed-Fibre Products, Inc. in Auburn, Maine, heard Melvin Francis, Governor of the Passamaquoddy Tribe at Pleasant Point, give a speech at a Maine Development Foundation dinner. Francis' talk concerned the economic development opportunities at the Passamaquoddy reservations. He mentioned the capital the Tribe had used to leverage start-up funds for a modular housing manufacturing business and the Urban Development Action Grant they had received to put in place a manufacturing building.

At that time, Gates Formed-Fibre, Inc. was looking for additional space to set up a polyester fiber extrusion plant to provide the fiber they use in their manufacturing process. The possibility of an arrangement with the Tribe was a fortuitous option.

Gates Formed-Fibre Products, Inc. is a wholly-owned subsidiary of the Gates Corporation, an international corporation with headquarters in Colorado. Gates Formed-Fibre, Inc. manufactures car and truck matted liners from fiber extruded from recycled polyester resin. They contract with General Motors Corporation and other domestic and foreign car and truck manufacturers.

Since the company started in 1984, it has purchased the fiber it uses in its process from outside vendors. It was interested, however, in vertical integration of its business and, therefore, began looking into the possibility of manufacturing its own fiber.

At the time McMahon and Smith heard Francis' dinner speech, they were actively looking for manufacturing space to set up a fiber extrusion plant. Following the speech and a conversation with Francis, McMahon approached Tribal Assets Management in Portland, the financial advisory firm retained by the Passamaquoddy Tribe, to discuss the possibility of a business deal. McMahon was interested in a wholly-owned subsidiary arrangement, leasing the space and equipment from the Tribe.

The Negotiated Agreement

During the negotiation process, Passamaquoddy Homes, Inc. closed, and that facility became available. The agreement that was reached provided that the Tribe would retrofit the building and purchase the needed equipment for the extrusion plant. The operation of the facility would then be leased to Fiber Extrusion, Inc. for a period of twelve years. The lease would be renewable at the end of that period.

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2. THE BUSINESS OPERATION

The Setup

In January 1989, Mark Burns, the manager of Fiber Extrusion, Inc. and two tribal members began the process of setting up the equipment for the operation. None of them had previous experience with this type of equipment, but with some technical assistance from the firm that sold it to them, they were able to set it up and make it operational.

The equipment is state-of-the-art fiber extrusion equipment and is all operated and monitored by computer. The operation is a heavy user of electrical energy and is highly technical.

The Start-Up

The operation started manufacturing fiber in September 1989. Because of the nature of the manufacturing process, the plant operates 24 hours a day, seven days a week. As of May 1990, the company is still adding equipment. It has three of four "spinlines" running and is continuing to build its capacity. It is expected to be running at full efficiency in another year.

The Manufacturing Process

The manufacturing process takes polyester chips made from recycled plastic containers, such as soft drink bottles, and melts them together in various blends to produce "undrawn tow" or wet string. The undrawn tow is then stretched, or "drawn", crimped, and dried to form the final polyester fiber product. The fiber is then cut to length, packaged and shipped.

The fiber produced at Fiber Extrusion, Inc. is frequently of very high quality. Their people are continuing to work on consistency of color and quality. As of May 1990, the company is perfecting a computerized tracking system that will permit them to document the production process over a period of several weeks or months. This will give them the ability to retrace the entire process that produced a particular fiber output, from the blend

of chips to the temperatures in the melting process or the drying process. Their intent is to be able to duplicate particular products precisely and consistently.

Management; Team

As at the parent company, the management level at Fiber Extrusion, Inc. is minimal. There are two site managers and four supervisors, all of whom are an integral part of the operation of the plant. They know all the jobs and participate where their help is needed. The Gates philosophy is that management should fully understand what they ask their employees to do and should not ask them to do anything they themselves would not do.

The remainder of the employees are considered equal in rank and members of a team. Employees participate in decisions involving their work schedules. Their ideas are sought to solve problems and to suggest ways to increase efficiency of operation. The assumption is that they are the front line of the operation and know the intricacies of the work better than anyone else. The Gates philosophy is that the employees are the reason the company is in business, and management makes every attempt to show their appreciation of the work they do.

Scheduling Shifts

Fiber Extrusion, Inc. runs 24 hours a day, seven days a week. Each shift is twelve hours. The current rotation is three days on and three days off, with a change from day to night shift, or vice versa, every five rotations. Thus, there are four teams, or shifts, and everyone works both day and night shifts.

At the beginning of each shift, the supervisor meets with his team to make decisions about how the shift will run ... how the jobs will be allocated. In addition, the employees as a whole group make the decision about what rotation schedule to follow. Participation in decision-making is encouraged at all levels.

Incentives

In order to build the plant's capacity as quickly as possible, the company has instituted an incentive program, with rewards given to the teams that make a given output goal first. In order to prevent one team from sabotaging another, the rewards are based on a 24-hour output goal. Thus, one team is not encouraged to leave all the problems to the following shift, in order to meet their goal. This approach not only increases the level of output overall, but also increases the efficiency of the whole operation.

Although employees were sure they could not reach the first goal, they have met and exceeded that and subsequent goals. One incentive was to take both winning teams out to dinner. The incentive they are currently working toward is a trip to the

Auburn plant to see that operation and to see how the fiber is actually used.

The Market

Not all of the fiber produced at the fiber extrusion plant is used by Gates Formed-Fibre, Inc. It is frequently more expensive than competitors' fiber on the open market. Therefore, a certain proportion of it is shipped overseas to other buyers.

Gates Formed-Fibre, Inc. tries to take advantage of the fluctuations in the market prices of fiber by buying quantities of fiber on the open market when the prices are lower and selling their own fiber when the prices are higher. By having their own plant, however, they are assured of a constant source of fiber and can hedge against possible market shortages.

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3. THE WORK FORCE

Employment Characteristics

The employment level of the plant has grown to 53 full-time workers plus a manager and an assistant manager. Included in the 53 employees are four supervisors, one electrical technician, four maintenance workers, a lab technician, and a shipping and receiving clerk. Of the 53, 20 (38%) are tribal members. Two of the four supervisors are tribal members, as is one of the four maintenance workers, and the shipping and receiving clerk.

Employees are hired based on qualifications. Although there is no written agreement to give tribal members preference in hiring, there is an unwritten understanding that that will be the case, when two people are equally qualified and one is a tribal member. Also, as distinct from the jobs provided by the manufacturing firms located at Indian Township, Fiber Extrusion, Inc. provides "men's" work and, therefore, taps into an additional segment of the reservation work force.

Hiring Criteria

Potential employees are screened by the Pleasant Point Personnel Office and the Maine Job Service in Eastport. Although traditionally there have been few full-time year-round employment opportunities in the Eastport area, the firm prefers to hire people who have had steady work experience. Because the jobs are technical and require up to two years to fully master, the company depends on workers who will stay with them for a long time.

Job Training

Because the jobs at Fiber Extrusion, Inc. are unique to their own manufacturing process, Gates does their own job training. Each employee, other than those in specialized areas, such as electrical technician and laboratory technician, is cross-trained in all jobs on the floor. It is valuable to both the employee and the company for each person to know the whole operation. This permits people to swap jobs if someone is sick or needs a day off, and it prevents boredom. It also gives employees a sense of the whole process ... of making the entire product, rather than just one isolated piece of it.

Quality of Employees

The company is pleased with the quality of the people it has found to work for it. The people "give 100%" and work well as a team. The manager, Mark Burns, feels confident that there is still a sizable pool of qualified labor in the Eastport/Pleasant Point area to draw from, as the company's needs increase.

Workers' Compensation is not a problem for the plant. There is a very low accident rate, with only one lost time injury since the operation began, and that is considered questionable. The company is careful in its hiring, and that has worked well for it. The screening done by the Tribe and by the Job Service have helped a great deal, and the company has found that nearly all the applicants it has been sent have been successful on the job.

Another factor in reducing injuries may be the commitment the employees feel for the firm. They have become vested in it and have worked hard to help it succeed, even when it has experienced the inevitable start-up problems and failures. Much of the credit for this may be attributable to the leadership of Mark Burns, and to the participatory management style of Gates.

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4. GOALS AND EXPECTATIONS

Quality; Consistency

Fiber Extrusion, Inc. has been successful in its first few months of operation in producing high quality fiber. Its goal is to produce consistency in the quality and color of the product.

Efficiency; Commitment

Fiber Extrusion, Inc. is also working toward a more efficient operation. It is expected to take about two years to smooth out the problem areas and to come up to full capacity. It is committed to the operation and expects to maintain it.

5. FINDINGS AND CONCLUSIONS

Lease Arrangement

The lease arrangement with the Tribe has worked well. Fiber Extrusion, Inc. has provided some much-needed steady jobs in the Pleasant Point and Eastport area. Their working relationship with the Tribe appears to be good, with the Tribe screening employ-ment applications and providing the company with successful employees. At least two tribal members are in management positions with the company. This type of work training is invaluable for the individuals involved. The goal of employing male tribal members is also beginning to be met.

Participatory Management; Value of Employees

In addition, there appear to be some important lessons about the value of participatory management in this case. In spite of the frustrations of working in a new plant that is experiencing start-up problems, the turnover rate appears to be fairly low, at least during the first nine months of operation.

The employees, who know that they are seen as critical to the success or failure of the operation, become more committed to their work. As Mark Burns said, he would take this group of employees anywhere and match them against any other group. He is certain they would stand out positively. This comment is in marked contrast to those of some other employers who have tried to operate businesses in this area.

CASE STUDY #3:

INDIAN TOWNSHIP MANUFACTURING
Indian Township, Princeton, Maine

(Tribal Enterprise with Sole Source Contract)

1. BUSINESS HISTORY

Background

Gates Formed-Fibre Products, Inc. in Auburn, Maine, contracts with General Motors Corporation and other automobile manufacturers to supply mats for automobiles and trucks. They make the formed fiber material from extruded fiber, die cut it, and serge the edges. In 1987, they needed more space for the manufacturing part of their operation and were interested in displacing the serging space. As an offshoot of the negotiations they were conducting with Tribal Assets Management in Portland regarding the fiber extrusion plant to be located in Eastport, Gates proposed that the Tribe consider undertaking an enterprise to contract for the Gates serging work.

The Negotiated Agreement

Because the Tribe had a large unemployed work force and the land, building, and capital to invest, Indian Township Manufacturing was formed as a tribal enterprise with a sole source contracting arrangement with Gates Formed-Fibre Products, Inc. The Tribe bought four sewing machines and set up the operation in an unused building.

Gates Formed-Fibre Products, Inc. agreed to contract with Indian Township Manufacturing for most of the serging to be done for their automobile contracts. They agreed to buy back the machines, if they discontinued the contract for the serging.

Management

The enterprise started operation in June 1988. The day-to-day operation is overseen by Manager Bob Tomah, a Passamaquoddy Indian, who reports to the Tribal Planning Director.

The overall operation is designed to be overseen by a tribal enterprise executive board made up of five or six tribal members from the Indian Township reservation. The members of this board are appointed by the Governor, with the approval of the Council. The board, which reports to the Governor and Council, is expected to oversee the operations of all the tribal enterprises on the reservation.

Initially, the board was expected to meet monthly and to monitor the progress of the businesses. At one time, it met weekly to become familiar with each of the various businesses the Tribe was managing. As of May 1990, it is not active. It is expected, however, that after the approval of a proposed work plan by both tribal councils and the receipt of funding from the Economic Development Administration for the new industrial building, the board will again become more active and involved in the tribal enterprises.

The books for Indian Township Manufacturing are kept by the Tribal Planning Office and Tribal Assets Management. Eventually, the books will be handled solely by the Tribal Government. The profits from the operation have been put back into the business itself to cover anticipated expansion expenses and for equipment and maintenance.

2. THE BUSINESS

Sole Source Contractor

Indian Township Manufacturing was formed as a sole source contractor for Gates Formed-Fibre Products, Inc. Their operation consists of serging the edges of pre-cut mats for car trunks.

Growth of Serging Contract

As the operation has increased its efficiency, Gates has subcontracted an increasing percentage of its serging requirements to the plant. The serging contract has grown from 3,500 parts per week in June 1988 to 9,000 parts per week in May 1990. As this volume of output has increased, the enterprise has been able to add two more sewing machines to the four they had originally purchased. In 1989, they added a second shift to the operation, expanding the work force from the original five people and the manager to eighteen people plus the manager.

As of May 1990, they are operating at close to capacity. As noted previously, however, Indian Township Manufacturing expects to move to larger quarters as soon as the building funded by the Economic Development Administration is completed, and they expect to further expand their capacity.

Drawback

The major drawback to the arrangement from the perspective of Gates Formed-Fibre, Inc. is the distance between the plants and the difficulty of timing shipments. This occasionally causes delays in shipments scheduled to leave from the Auburn plant.

3. THE WORK FORCE

Training Program

The Tribe provides training for the Passamaquoddy work force at Indian Township Manufacturing through the Carl Perkins Vocational Education Fund. It is expected that people will take four to five weeks to "get up to speed" on the serging procedure.

The manager of the operation commented that the people learn hand work quickly and seem to have an aptitude for it. He noted that some of those who started with no skills or experience have adapted and learned the work better than some others who had had previous experience in stitching operations.

As a way of ensuring a stable work force, there is an agreement through this training program that if a tribal member quits a job at either Indian Township Manufacturing or Creative Apparel Associates, he or she cannot be hired by the other for a year.

Tribal Employment

When the operation first opened in June 1988, there were five employees plus the manager, all of whom were tribal members. However, as time has gone on, and as the number of employees has grown, Passamaquoddy employees have had to be replaced with increasing numbers of non-Indian workers.

The retention rate for Passamaquoddy workers is somewhat low for a number of reasons. Some of the best workers have been attracted to jobs in Tribal Government, where the pay is considerably higher and, according to some, the demands of the job less. Also, some tribal members quit work in the summers for a variety of reasons.

As of May 1990, Indian Township Manufacturing had eighteen full-time employees working two eight-hour shifts, in addition to the manager. This includes twelve stitchers, four inspectors and two supervisors. All of the employees, other than the manager, are women. At this time, about half or fewer are tribal members. However, the two supervisors are tribal members, and two of the four inspectors are tribal members.

Employees are paid an hourly rate plus an additional incentive for piecework above a given number of completed pieces. As with Creative Apparel Associates, people can make quite a good wage, but they have to work hard for it. They can make the same or a higher wage in Tribal Government, without working as hard.

4. GOALS AND EXPECTATIONS

Expansion

The enterprise has been successful and has produced a consistently high quality product for Gates Formed-Fibre Products, Inc. It is currently operating at near full capacity, but it would like to expand the scope of its operation. For this reason, the Tribe has received funding from the Economic Development Administration to construct a new industrial building to house the Indian Township Manufacturing enterprise and Creative Apparel Associates. Both businesses are in need of space to expand.

Indian Township Manufacturing has been exploring several options for its expansion plans. Among them is increasing its serging capacity by an additional eight machines and seeking other contracts. It has looked into Small Business Administration 8(a) status for negotiating on government contracts, and it is considering bidding on government set-aside contracts for minority-owned or Indian-owned and managed businesses.

Value-Added Component

The enterprise has also looked into adding die-cutting equipment to its operation, so that it can do the cutting, as well as the serging of the mats. This would give it an opportunity to provide more of the value-added component of the product.

5. FINDINGS AND CONCLUSIONS

Successful Enterprise

Indian Township Manufacturing has been a successful tribal enterprise, principally because it has been allowed to operate as a business, rather than as an extension of Tribal Government. It has consistently produced a quality product and has been able to expand and increase its employment base. The prospects for continued expansion appear to be good.

Difficulties

As noted previously, the distance from the Gates plant in Auburn is sometimes a problem. Difficulty with timing shipments makes scheduling outgoing shipments from the Auburn facility difficult.

Employment of Tribal Members

As with Creative Apparel Associates, however, the goal of employing tribal members and helping them gain economic independence seems an elusive one. Although the opportunities are now there for a number of them to have gainful employment, some vital link is missing.

One problem is the competition for employees by Tribal Government. But perhaps the more serious underlying problem is how to make the idea of employment an appealing one to a larger number of tribal members. While Tribal Government may be siphoning off many of the workers, there are many other people still not employed, who can learn new skills and contribute to their own livelihoods.

CASE STUDY #4:

PASSAMAQUODDY HOMES, INC. (PHI)
Eastport, Maine

(Joint Venture)

1. BUSINESS HISTORY

Background

This case study is based on a grant application to the Administration for Native Americans, grant closeout information relating to an Urban Development Action Grant, and interviews with people familiar with the venture.

Makroscan, Inc., the U.S. subsidiary of a large Finnish manufactured housing firm with substantial experience in industrial production of housing, approached the Passamaquoddy Tribe in 1986. Makroscan was interested in establishing operations in the United States, which would produce and erect energy-efficient housing panels using foam insulation technology developed by Makroscan. The Tribe was interested in investing in a business that would provide a stable economic base, as well as much-needed jobs for tribal members living on the reservations.

Makroscan presented a feasibility study showing that residents of the Northeast were interested in energy-efficient housing and that there was a need for manufacturers of such housing to meet the demand. Independently, the Tribe had determined that manufactured housing was needed in New England. They also felt that the skills, aptitudes, and work preferences of their people were well-suited to the manufactured housing industry. The fit of the two entities seemed good and timely.

The Macroscan housing system was based on factory construction of closed, load-bearing thermal core wall panels, consisting of framing materials, sheathing, and a polyisocyanurate foam core. The wall panels could be manufactured in various sizes to accommodate different housing designs. Their competitive niche was based on their houses' energy efficiency and air-tight fit and their quick site-erection time.

The Partnership Agreement

In 1986, after a long and difficult negotiation process, the Tribe and Makroscan entered into a joint venture agreement. The Tribe was to own the company and provide all the financing, which it did through a combination of loans, grants and its own assets. It also was responsible for recruiting the management team and for the marketing.

Makroscan was to provide the technology, the factory design, a repurchase agreement on the equipment, and technical and management assistance under a variety of consulting agreements. As part of its obligation, Makroscan was to adapt the design technology to the New England housing market.

The Start-Up

By the end of 1986, the Tribe had packaged a financial deal which permitted the establishment of Passamaquoddy Homes, Inc. at a vacant plant in Eastport, near the Pleasant Point Reservation. Financing for the project included an $839,500 Urban Development Action Grant, $868,690 from the Tribe, and over $3 million of private investment.

The Tribe renovated the vacant building in Eastport to make a 48,000 square foot manufacturing building. PHI began operation in 1987. By the spring of 1988, the business had manufactured and sold over 90 houses. During its peak period, the company employed 25 full-time permanent employees.

The Management

The venture was overseen by a board of directors consisting of the two tribal governors and two tribal members. The President of the new venture also sat on the board. The Tribe and their financial advisors, Tribal Assets Management of Portland, recruited a management team, who were all non-Indians, consisting of a President, Senior Vice President, Sales Manager, and Directors of Field Operations and Product Development. The Plant Manager was a Finnish engineer hired through Macroscan.

One of the first difficulties encountered by the fledgling company was that of recruiting appropriate management. During the initial negotiations with Macroscan, the Finnish firm was to have provided management assistance to the firm. However, they backed away from that part of the agreement and offered a technical assistance agreement in place of the management agreement.

Subsequent reports indicate that the plant manager, recruited by Macroscan, was well qualified and did a very reputable job. However, the senior management, the President in particular, were apparently not prepared to deal with the magnitude of overseeing the startup of a venture of the size and complexity of PHI. The finances were not tracked effectively, and communication between senior management, based primarily in Portland, and the management on site at the plant and in the field was inadequate.

In addition, in the opinion of some, the Portland management team commanded excessively high salaries. Although the salaries were appropriate to the magnitude of the management responsibilities, the management team that was ultimately recruited was unable to meet these expectations. A president was unable to be recruited from a comparable management environment. The person

who was hired to fill the position was ill-prepared to deal with the effects of a changing economic situation and the vagaries of a new market on an operation the size of PHI. Although Tribal Assets Management had been able to secure the complex financing arrangements for the deal, the Tribe had put the training programs in place, and the factory production team was quickly stabilized, the central management team in Portland did not have sufficient grasp of the market and the business itself to put appropriate accounting and management controls in place.

Field Crews

The costs associated with field crews were also higher than they should have been. Because the crews were poorly trained and managed, they offered no advantage over local crews, and their expenses for meals, lodging, and travel were considerable.

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2. THE OPERATION

Track Record

The operation consisted of manufacturing energy-efficient wall panels in the PHI facility and erecting them on site in the field. From June 1987 to January 1988, PHI sold and erected about 70 houses in Massachusetts and Maine.

Assumptions

The success of the PHI housing venture, however, depended on a number of assumptions that proved to be incorrect. These faulty assumptions were that:

* Homebuyers would be willing to pay a premium price for technologically innovative energy-efficient housing components;

* Some of the higher costs of the materials and the fabrication operation would be recouped in the savings in time in erecting the houses;

* There would be a high volume market for stock housing designs among developers;

* The technology was sound and state-of-the-art; and

* Makroscan would adapt its housing product and design to the demands of the U.S. market.

Problems

As with any startup operation, the problems with the new PHI venture were numerous. However, the complexity of the operation itself magnified the problems, and errors of judgment were compounded by external factors.

Among the first problems encountered by PHI was the finding that the Makroscan system was not suitable for the U.S. market or for the design requirements of U.S. and New England houses. Makroscan had agreed to adapt its building system to this market, but it did not, and PHI had to invest time and product development money to make the adaptation. This put them behind financially from the beginning.

PHI had assumed that homebuyers would be willing to pay higher than average prices for state-of-the-art energy-efficient houses. However, PHI found that they would not, and those who would expected unique housing designs.

The agreement had been made and the venture started during the peak of the building boom in the Northeast. By the time the facility started production, the boom had crested and begun to recede. Thus, the high volume market with a shortage of building contractors quickly changed its complexion. Contractors began laying off carpenters, who began to contract for their own work out of their homes, with little overhead expense. With fewer homes being built, competition for price, quality and design became keen. This market condition had not been anticipated in the original revenue projections prepared for PHI.

The volume of sales needed to cover the costs of the manufacturing operation was sought among developers. These people, as middlemen, needed cost-competitive construction and individualized designs. PHI thus found itself in competition with housing framers with considerably lower overhead expenses and more flexibility in housing design. If the anticipated lower costs and higher volume of the on-site construction had been able to be realized by PHI, the effects of the overhead cost differential might have been minimized, but the cost effects of the individualized housing design requirements could not be compensated. In order to meet the requirements of the target market, selling prices were lowered, while costs were raised.

As noted, the cost savings anticipated in the on-site erection of the houses were not realized. The company grew too quickly, and it was unable to adequately train its field crews. The crews were made up largely of young tribal members who were not used to the expectations of the working world and were newly away from the reservation environment. Because they were poorly supervised and work expectations not made clear, they frequently would not show up for the job, and expensive equipment ... cranes and their operators ... would be paid for, while no crew were there to do the house erection. In addition, also because they

were not well trained and supervised, the costs of their travel, board, and lodging were not compensated by efficiency in building erection technique.

Because of the unanticipated adjustment to the target market, PHI increased its factory production costs considerably. While it had been assumed that a few standard housing designs would meet the needs of the developer market, by the time PHI started production, that was no longer the case. Rather than retrench and adapt its marketing strategy to find a market for the product it was geared up to make, it attempted to adapt the product to the originally intended market. Although hindsight does not provide the "correct" response to this dilemma, this particular decision increased the cost of production a great deal. This, in addition to the lowered selling prices of the panelized units, meant that the business could not break even, much less make a profit on its sales.

Added to its problems with production and site erection, the technology itself proved faulty and more expensive than originally anticipated. Studies conducted in Canada showed that the R-value of the polyisocyanurate foam used as the insulating agent in the panels, and the major marketing factor in the Makroscan and PHI systems, decreased over time to a value no higher than traditional fiberglass.

After PHI had started production, regulations were passed in the United States limiting the use of freon, the blowing agent in the foaming technology. Suppliers escalated the price of freon, causing the cost of constructing the wall panels to increase from $.85 per square foot to an expected $1.60 per square foot by March 1989. This competed with the cost of constructing a panel insulated with fiberglass of $.33 per square foot. Thus, the competitive value of the PHI panelized systems was undermined, while their cost of production increased.

The combination of all these factors, coupled with the inability of the senior management to respond to the problems as they arose, caused the venture to fail by March of 1988. It was unable to meet even its fixed cost payments, and a decision was made by the Tribe to close the business. The firm laid off all but one employee, who was retained long enough to close out the operation.

3. THE WORK FORCE

Tribal Members

The work force at both the factory and among the site-erection crews was made up largely of tribal members. As of January 1988, over 60 tribal members were employed. Of 18 to 20 workers at the factory, only three were non-Indian. Two of the five members of the management team at the factory were also tribal members. Wages among factory employees ranged from $6.50 to $7.50 per hour.

Factory Work Force

The operation at the factory was, by all accounts, very satisfactory. The management and employees at the Eastport site felt responsible to each other, and the crew took pride in their work. They did efficient, high quality work, and the square foot output per hour was as high or higher than at the factory in Finland.

Much of the credit for the success of the operation at the factory may be ascribed to the management team in place there. The plant manager had been recruited by Makroscan from a competitor of their parent company in Finland. Together with personnel from the Tribe, he recruited a carefully screened and selected management team, consisting of a production foreman, an assembly foreman, a production planner, and an administrative assistant. As a team, they tracked costs carefully and implemented a personnel policy forbidding the use of alcohol or drugs and requiring employees to be punctual. They created an atmosphere of professionalism and mutual respect, and the employees responded in kind. Morale at the plant was very high.

Road Crews

The management of the road crews, on the other hand, was poorly handled for the most part. The first one or two crews were more carefully chosen and trained. They showed up for work as expected and were fairly carefully monitored by tribal staff for the first few site erections.

However, as the volume of work increased, the non-Indian Director of Field Operations had increasing difficulty managing the situation. He was less selective in the hiring process and was not prepared to deal with the substance abuse problems among many of the members of the crews. These crews were indadequately supervised, and they were not reliable in showing up for work. At times, they kept expensive equipment waiting for days.

These crews were not well-trained and apparently did not feel the same sense of pride in their work as did the factory crews. Many did poor construction work and were not careful in aligning wall panels. This problem of poor construction has been blamed on the Director of Field Operations, whose interest was in getting the buildings up as quickly as possible, regardless of the quality of the work. Although his intention may have been to cut the costs of the on-site construction, as well as to keep up with the high volume of the orders, the overall costs of his operation were increasingly high. He did not track those costs, however, in part because he was never given the financial information he needed from the central office.

It is possible that more rigorous training over a longer period of time and better screening and supervision of the road crews would have averted much of the problem. However, the volume of work was so high and came so quickly that training time and quality control were sacrificed. It is also possible that hiring crews from the local areas would have been more cost-effective. Although each new crew would have needed to be trained, if there had been a number of units to be erected in a given area, the training might have been more than compensated by the savings on travel, lodging, and meals.

Sales Force

There was only one salesperson in the field. It is possible that if there had been more salespeople targeting a wider group of potential buyers at higher selling prices, the problems the venture had in meeting the design and price demands of a limited group of developers might have been avoided.

Effect of Failure

Many tribal members had been committed to the company and felt vested in it. They had taken pride in their product and had begun feel a sense of control over their own destinies. Thus, the failure of PHI had a devastating effect on their morale.

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4. SALVAGE ATTEMPT

ANA Application

In an attempt to salvage the failed PHI operation, the Tribe applied to the Administration for Native Americans for a grant to underwrite the costs of conducting a new market study and designing an appropriate business plan. They had hoped that by better understanding the volatile housing market, they could re-design their product to fill a given niche.

They would re-tool their factory accordingly and implement an aggressive marketing strategy to more effectively break into the competitive housing market. They developed a well thought-out strategy for approaching the revitalization of their failed venture. At the factory, they already had in place the physical structure (plant and equipment), the trained and committed labor force, and good management. Unfortunately, the proposal was not funded and the plant remained closed.

Lease Arrangement with Gates

In order to make use of the facility and to repay the outstanding debt from PHI, Tribal Assets Management, at the behest of the Tribe, sought a manufacturing firm to make use of the space. As a result, the lease arrangement with Gates Formed-Fibre Products, Inc. was entered. The revenue from this lease is currently being used to pay down the original debts from the PHI venture.

5. FINDINGS AND CONCLUSIONS

Risks

Although the Tribe had been made aware of the risks involved in the venture with Makroscan, they were prepared to take those risks for the chance to create the types of jobs and the training their people wanted. When the negotiations were entered, the chances for success appeared fairly good. Makroscan was interested in a partnership arrangement, whereby they would supply the management team. At the time, the housing market, in general, was at a particularly high point.

Volatility of Housing Market

The housing market is a volatile one, but the parent company of Makroscan in Finland was a very successful international home-building company. Their product was a good one. Although panelized housing companies had mixed results in the United States, it appeared that the right one could succeed. The housing market study and the business plan were well researched and appeared, on the surface, to make sense.

Complexity of Business; Management Needed

However, during the difficult negotiation process, Makroscan backed away from a management agreement and was willing only to supply the technology and the equipment. PHI was a complex business undertaking, involving factory production, on-site construction, and marketing. Each of these aspects alone is a significant undertaking, requiring specific management expertise,

particularly when magnified by the volume of output needed to meet the (very conservatively) estimated breakeven point.

Added to this were the difficulties and high rates of failure found in any startup operation, particularly among those with the high fixed costs of a manufacturing facility and unseasoned management.

It is possible that if the original management agreement with Makroscan had been honored, the venture might have had a greater chance of success. As it was, however, the Tribe had difficulty in recruiting appropriate central office management, and that aspect of the operation was decidedly weak.

Lessons

Many lessons have been learned from the PHI experience. Among them are some positive ones, such as the commitment of tribal members to a work effort they believe in. The work team at the factory, management and laborers both, were committed to each other and to a quality product. They took pride in their work and worked hard. It may be assumed from this experience that when appropriate jobs and work environment are offered, the people respond and participate with enthusiasm.

On the other hand, important lessons have also been learned about the difficulty of starting a new business, particularly a complex one, one without a guaranteed market, with high fixed costs, and one without a seasoned management team already in place.

In Retrospect

In retrospect, it appears that when it became clear that costs were increasing and selling prices were decreasing, the President and senior management team should have re-examined their marketing strategy and their overall business plan. If they had put better accounting and management systems in place, they might have been warned of the discrepancies between their financial projections and the actual revenues and costs.

The modus operandi of Tribal Assets Management has been to look for business partners with proven track records and management expertise in place. Management is a critical component in the success of any business, and recruiting new management for a new undertaking is risky, at best.

In retrospect, the Tribe should have backed away from the deal when Makroscan reduced its level of commitment to it. On a personal level, hindsight shows that in this case, instinctive feelings of lack of trust between the parties during the negotiation process should have been heeded, rather than ignored to respond only to the rational aspects of the deal.

CASE STUDY #5:

DANA TRUCKING
Pleasant Point, Perry, Maine

(Indian-Owned Entrepreneurship)

1. BUSINESS HISTORY

Family Business

Dana Trucking is owned and managed by Ralph Dana and his family, members of the Passamaquoddy Tribe, living at the Pleasant Point Reservation. The business was started in 1978 as a family business and has remained as such, although it has grown considerably.

Mr. Dana had worked as a machinist in private industry in Boston for 25 years, before retiring and moving back to the reservation. His son expressed an interest in working for himself, and Mr. Dana saw an opportunity for a dump truck business in the Eastport/Perry area. Because his son was ambitious and hard working, Dana felt they could make the business work. As a result, he and his wife used their savings to buy a dump truck and started Dana Trucking in 1978.

After his son died in an accident, Dana and other family members took over the day-to-day operation of the business.

Little Reservation Business

Dana Trucking found jobs throughout the Eastport/Perry area hauling gravel and fill. The reservation did not provide them with much business, but the surrounding area did. After about two years, they no longer contracted with the reservation for work.

Business Being Liquidated

As of the time of the interview with Mr. Dana in May 1990, the business was in the process of being liquidated, because Dana wants to retire, and none of his family is in a position to continue running it. Therefore, despite the fact that the business is still going well, they are selling their equipment.

2. THE BUSINESS

Profits Put Back into Business

From the beginning of the venture, the profits were put back into the business to build capital for expansion of their equipment inventory. They bought a second dump truck, and about a year later, they bought a loader to load the gravel and fill into their own trucks. About a year after that, they bought a bulldozer to spread the gravel for their local contracts. In another year, they found a need for an excavator and bought one of those.

Money Borrowed

In order to purchase this equipment, they first borrowed $10,000 through a Small Business Administration (SBA) loan and paid it back over the allotted time period. Following that, they borrowed $100,000 through another SBA loan. They used only $71,000 of this loan, because they began to be concerned that they were expanding too rapidly. They paid this loan back on schedule, also.

Road and Highway Contracts

After about six years, Dana Trucking started taking advantage of minority hiring requirements for state and federal road and highway contracts. Through this program, they began taking work all around the State.

3. WORK FORCE

Family

When the business began, Dana and his son were the only people working in the field. Three of his daughters, however, alternately helped manage the office and maintained the business records.

Additional Employees Hired

Gradually, as they expanded, they began hiring additional people to run the equipment. The business has had up to 24 people on the payroll. Of the 24, five were tribal members, including three members of the Dana family, and the rest were non-Indian.

Although they would have preferred to hire tribal members, their principal need was for good, reliable workers, who would do the work well and would work on schedule. The business was run "as a business", and profits had to come before social goals.

Management

In the recent past, much of the business has been managed by Dana's daughter, Marilyn. While Dana and another of his sons have worked in the field, Marilyn has maintained the internal operation of the business, managing the contracts and the books.

Family Members no Longer Available

Dana's son and other daughters have now completed their educations and have moved on to other jobs. At this time, Marilyn, too, wants to complete her education at the University of Maine and will be unable to work full-time for the business. Therefore, although the business has continued to be profitable, Dana is ready to retire, and none of his family are in a position to continue running it. While they are currently in the process of selling their equipment, they are continuing to take contracts to keep the remaining equipment working.

4. FINDINGS AND CONCLUSIONS

Business Could Continue

Dana Trucking has been operated as a profit-making business for about twelve years. There is no reason why it could not continue to run profitably, except that the owner is interested in retiring and pursuing other interests.

Hard Work and Vision

Its success has been largely due to the hard work of Dana and his family and their ability to manage the operation as a business, putting profits before social concerns and reinvesting the profits in the business. It has been due also to the vision essential to successful entrepreneurial ventures ... seeing opportunities and pursuing them.

CASE STUDY #6:

PASSAMAQUODDY ELECTRONICS
Pleasant Point, Perry, Maine

(Indian-Owned Entrepreneurship with Sole Source Contract)

1. BUSINESS HISTORY

Digital Wants to Make Contribution

In the late 1970's, Digital Equipment Corporation in Augusta, Maine, was interested in subcontracting with a tribally owned electronics firm on one of Maine's Indian reservations. It was concerned about the degree of economic distress in the reservation communities and wanted to contribute to Indian employment opportunities.

Through a contact on the Pleasant Point Reservation, Digital approached the Tribal Government in 1978 to see if they were interested in setting up such an enterprise. Peter Bailey was working for the Tribe at the time and attended a meeting in which the subject was broached.

Individual, Not Tribe Interested

Because the Tribe did not appear interested in the undertaking, he asked for the chance to try it himself. Bailey, a Passamaquoddy tribal member, had spent four years in the military and two and a half years working for General Electric.

Money Borrowed; Lease Arrangement

Bailey borrowed money from friends and from the bank to get started. The Tribe gave him a 15-year lease on a vacant building, and he renovated it with his own and borrowed money, along with the help of a number of friends. Digital agreed to provide the machinery on a lease arrangement and to train the personnel. Passamaquoddy Electronics began operation in February 1981.

Role of Tribal Government

On the whole, Tribal Government, however, has not been supportive of Bailey and his business venture. The building they leased him was in poor condition, and he has had to take care of all the renovation himself. It is also located slightly below grade from the road, and runoff from the street causes damage to the building and erodes his parking area. Thus far, the Tribal Government has refused to fix the street or put in ditching and culverts to take care of the runoff. Bailey says he has made his operation successful in spite of the Tribe.

2. THE BUSINESS

Sole-Source Contractor

From the beginning of the operation, Passamaquoddy Electronics has operated as a sole-source contractor for Digital Equipment Corporation. It began by building very simple cable and has gradually contracted for increasingly complex work on cable and wiring harnesses. The business requires the skills of an electronics technician, whom Bailey hired.

Training

Because there are no appropriate training programs in the area, Passamaquoddy Electronics trains all its employees. It teaches blueprint reading, soldering, assembly, packaging, and inventory control. When appropriate classes are offered at the Vocational Technical College in Calais, Bailey pays for his employees to take them.

Quality Control

Digital depends on a high quality product, and Passamaquoddy Electronics is very conscientious about quality-control. In fact, it has received a quality rating from Digital of 99.5%. Because of this, the firm has been able to maintain its contract base, although the level of contracts does fluctuate.

3. THE WORK FORCE

Employees

As of May 1990, the firm has eighteen full-time employees, of whom eleven are tribal members. The assistant manager, who is the electronics technician and is responsible for much of the day-to-day operation, is non-Indian. However, as noted above, the owner-manager is a tribal member.

Because of the variability in the level of contracts, the number of employees fluctuates a great deal. At times, the firm employs 53 to 68 people working two to three eight-hour shifts.

Bailey's preference is to hire tribal members whenever he can. Because of the training involved and the strict adherence to quality control, he tries to hire only those he is fairly certain will stay with the job and who will be committed to it.

Philosophy

The philosophy that Bailey promotes is that of encouraging tribal members to be responsible for themselves and to develop self-esteem. He encourages people to continue their educations and to do as much as they can to improve themselves and their lives.

Toward this end, he tries to hire as many children as possible during summer vacations to get them used to handling their own money and being accountable for it. In addition, he works with the school to motivate the children and to instill in them strong Indian values.

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4. GOALS AND EXPECTATIONS

Variation in Employment Level

Because Passamaquoddy Electronics is so dependent on Digital Equipment Corporation for its contracts, and because there is so much fluctuation in the output requirements, the employment level at the plant varies a great deal.

Diversification of Contracts

In order to even out the production levels and to maintain a fairly consistent level of employment, Bailey has begun to explore ways to diversify his contract base. In this regard, he has begun submitting bids for government contracts and has recently submitted a bid to Raytheon for electronic assembly work.

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5. FINDINGS AND CONCLUSIONS

Successful Business

Passamaquoddy Electronics has been a successful small business for nine years, providing employment for a number of tribal members. It serves as an important example to young people of the possibility each of them has to succeed and become self-sufficient.

Diversification Possible

Because the firm produces a consistently high quality product, there is every reason to believe that it will be able to

diversify its contract base. With some hard work on the part of management to continue to search out and follow through on appropriate electronics assembly contracts, they should be able to attract additional contracts to provide a more stable employment base. By doing this, their contribution to the Tribe and its members may become even more substantial.

CASE STUDY #7:

NORTHEASTERN BLUEBERRY COMPANY (NEBCO)
Columbia Falls, Maine

(Tribal Enterprise)

1. BUSINESS HISTORY

Background

Shortly after the Land Claims Settlement, Tribal Assets Management in Portland, Maine, the financial advisory firm retained by the Passamaquoddy Tribe, heard that 2,000 acres of blueberry land in Columbia Falls was being sold. Tribal Assets Management suggested to the Tribal Council that they should buy the land and set it up as a tribal enterprise. This was done in 1981.

The land was purchased with capital from the trust fund, and the enterprise was formed as the Northeastern Blueberry Company (NEBCO). The company then borrowed $100,000 from a private-sector bank to buy the building and equipment. This loan was repaid by the end of the first year from the company's profits.

Management

A board of directors was formed to oversee the enterprise. The board is comprised of three people--two members of the Passamaquoddy Tribe (one from each of the two reservations), and a financial officer (the President of the bank from whom the tribe borrowed the initial $100,000). A clerk (a representative from Tribal Assets Management) attends board meetings, records the minutes, and acts as a legal advisor to the company.

The Board appointed Francis Nicholas, a tribal member from the Pleasant Point Reservation, as the manager of the operation, with a tribal member from the Indian Township Reservation as the assistant manager. The manager and assistant manager oversee the day-to-day operation of the business and hire the remainder of the employees.

2. THE ENTERPRISE

Profitable Enterprise

NEBCO has been a profitable enterprise. Most of the profits from the operation of the business are reinvested in the enter-

prise to purchase and maintain equipment and inventory. The business sustains itself and gives the excess profits to the tribe for distribution to the tribal members.

The Operation

The operation consists of maintaining and harvesting 2,000 acres of tribally owned wild blueberry fields. In addition, NEBCO leases, maintains and harvests an additional 118 acres of an adjacent parcel belonging to the Air Force Radar Station.

The harvest is done on a two-year rotation, with alternate 1,000-acre parcels harvested each year. The maintenance of the fields consists of pruning the bushes, burning the fields in the spring, applying herbicide to kill the weeds, applying chemicals to prevent "blight", applying pesticides to kill the blueberry fruit fly, and irrigating when needed. The company rents honey bees from Florida for pollination of the plants during the spring bloom. It then markets the raw berries to a processing plant.

Yield

The berries are all picked within a three- to four-week period. The yield is approximately 8,000 to 10,000 boxes a day, which is about 200,000 pounds a day. Since taking over the operation of the fields in 1981, NEBCO has increased the yield from about a million pounds a year to about 3.3 million pounds in a good year.

The Equipment

In order to manage the increased yield, NEBCO has bought additional equipment. Besides the irrigation equipment, it now has five farm tractors, five tractor trailers, three flat bed trucks, and five or six pickup trucks.

As noted above, in addition to the equipment the enterprise owns, it also rents honey bees from Florida each spring to pollinate the plants during the bloom. The manager expects they will need about 2,000 hives for the 1990 pollination season, at $31 per leased hive. The hives are placed in the fields at a density of about one or two per acre for a period of about three weeks.

Credit Line

Since the initial loan of $100,000 to purchase the buildings and equipment, which was repaid the first year, NEBCO has been granted a line of credit. This permits them to borrow for day-to-day operations during "lean" years, when the crop does not do well for reasons of weather or other circumstances, or when the price of the berries on the market drops.

3. THE WORK FORCE

Overview

The work force consists of a crew of seven full-time employees for eight months of the year, in addition to the manager and assistant manager. During the harvest, the work force increases to between 300 and 500 rakers per season. These people rake for about three to four weeks.

The Full-Time Crew

The duties of the full-time crew consist of maintenance of the equipment and of the fields. The duties range from welding and small-engine repair to driving trucks and carpentry work. With the exception of the manager and assistant manager, the full-time crew are all non-Indian. The reason for this is principally that the company is too far from the reservations at Pleasant Point and Indian Township for an easy commute.

The Rakers

The rakers are hired by and report to the leaseholders, or contractors, who are hired by the NEBCO manager. The leaseholders are responsible to the NEBCO manager, Francis Nicholas. They bring the workers in and oversee them for the duration of the harvest. Most of the rakers are Micmac Indians from Canada, some of whom use their two-week summer vacations from work to rake the blueberry harvest. The Micmacs are joined in the harvest by some members of the Maliseet and Passamaquoddy Tribes.

Four camp sites are set up and maintained by NEBCO for the rakers. Three of the sites accommodate 150 people each, and one accommodates 75 people.

4. GOALS AND EXPECTATIONS

Processing Plant

At the current time, NEBCO sells its raw product to a processing plant in Machias. This plant processes, packages, and markets the berries to customers worldwide.

NEBCO has looked into the possibility of purchasing a processing plant to gain a larger share of the value added to the raw product. So far, they have not found the right opportunity for such an investment. They are, however, considering buying a percentage interest in an existing processing plant.

More Land

In addition, if more land becomes available in Indian territory, they would be interested in buying it for further agricultural development in blueberries or cranberries, or for whatever crop it is best suited.

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5. FINDINGS AND CONCLUSIONS

Highly Successful

NEBCO has been highly successful as a business operation, increasing the blueberry yield from its fields threefold in the nine years since it began operation. It has been financially stable and has maintained a good credit rating.

Employment of Tribal Members

While it has been, and most likely will continue to be, a good, well-managed financial investment for the Tribe, it does not contribute to the employment of tribal members. However, the investment is of value to the Tribe from an economic perspective.

CASE STUDY #8:

PASSAMAQUODDY FOREST PRODUCTS ENTERPRISE (PFPE)
Indian Township, Princeton, Maine

(Tribal Enterprise)

1. BUSINESS HISTORY

Background

The Passamaquoddy Forest Products Enterprise (PFPE) was formed in part as an outgrowth of the Passamaquoddy Forest Service. Under a 630(a) self-determination contract with the Bureau of Indian Affairs (BIA), the Forest Service manages the Tribe's 130,000 acres of forest land. It marks the trees for cutting and, in the past, has sold the stumpage to private contractors to log and market. The Tribe decided it would be better served by forming its own logging business to capture more of the value from its own resources.

Because the BIA maintains a trust responsibility for Indian lands, the Tribe filed application with them to set up the enterprise. Approval was received in October 1989, and the enterprise started operation in November 1989.

Management

The Tribe is appointing a board of directors to oversee the enterprise. The board will be comprised of four tribal members (or three tribal members and one non-member) appointed by the Governors with the approval of the Joint Council. The operation is managed by Donald Soctomah, a tribal member and a forester with the Passamaquoddy Forest Service.

2. THE ENTERPRISE

Nonprofit Entity

Passamaquoddy Forest Products Enterprise is a nonprofit entity formed to log and market the stumpage from tribal forest lands. It contracts with the Tribe to cut the wood and works with the Forest Service to promote sustainable growth on the Passamaquoddy forest lands.

The Operation

The operation consists of logging and marketing the selected wood from the 130,000 acres of tribally owned forest land. The operation is under contract with the BIA to manage the land for a sustained yield over a 25-year cycle. It is managed also to maintain a diversity of crop trees. In order to accomplish this, the enterprise sets cutting goals of a given number of logs per month, with the largest number being cut during the summer. It reseeds cut land to assure continued diversity of tree growth.

The cutting is planned to take advantage of the best conditions for cutting and hauling. Spring is usually a difficult time of year for getting equipment into the woods and for hauling logs over secondary roads, because of the soft ground in the woods and the tendency of the road surfaces to break up, particularly under heavy loads. This past spring, however, the operation planned its schedule to cut near highways and on higher ground, so that it could operate for more of the season.

The enterprise contracts with loggers and truckers to cut the wood and haul it to the markets. The loggers operate their own skidders, and the truckers drive their own trucks.

As of May 1990, the enterprise is making payments on a dump truck and a bulldozer, which they are using to haul their own gravel and build their logging roads. When the equipment is not in use, it is contracted out to other jobs to generate additional revenue.

Market; Income; Pay

PFPE markets four different types of hardwood logs. Each is sold to a different buyer, depending on which is paying the highest price at a given time.

The income from the operation is reinvested in the enterprise to cover the expenses of its operation. It also is used to reseed the forest and purchase needed equipment. Any excess profit is given back to the Tribe for distribution among the members.

The enterprise pays its employees and contractors somewhat more than the industry average, in order to attract the best workers. It also does some profit-sharing to encourage people to work efficiently.

3. THE WORK FORCE

Full-Time Employees

There are three full-time employees plus the manager. The three include a secretary, a logging foreman and an equipment supervisor, all of whom are tribal members.

Contractors

The work force also includes 10 to 22 logging contractors, depending on the work load. In the fall of 1989, there were seven skidders employed, with two people per skidder, accounting for 14 logging contractors. Most of these were tribal members. During the summer, the enterprise needs to expand its operation. Because there are a limited number of tribal members who own skidders, PFPE hires non-Indian skidder operators to fill out the work force.

Skidders

The Tribe is trying to encourage more tribal members to invest in skidders, in order to be available to work for PFPE. They are willing to loan members money to cover some of the costs of the maintenance of the equipment.

4. GOALS AND EXPECTATIONS

Employment for Tribal Members

In addition to the added revenue for the Tribe, one of the principal goals of the Passamaquoddy Forest Products Enterprise is to increase the employment options among tribal members and to hire tribal members whenever possible.

Expansion

To this end, the Tribe would like to expand its current operation, after it establishes itself more solidly. It will look into the Federal government's set-aside contracts, and it plans to bid on State contracts in the future. It also expects to contract with private landholders to cut and market their timber. It would like to encourage more tribal members to invest in skidders and other harvesting equipment to take advantage of the expected additional contracts.

Shingle Mill

Another goal of the enterprise, set farther in the future, is to set up a shingle mill to add further value to some of the wood cut from tribal lands.

5. FINDINGS AND CONCLUSIONS

New But Sound

The enterprise is a new one, but it does appear to be a sound one, and it appears to be well-managed. For example, this past spring, management planned to take advantage of accessible cutting locations during the spring thaw, in order not to lose logging time and to spread the cutting out over more of the year. While that type of planning may not always be feasible, when it is, it allows for a more steady employment level throughout the year.

Goals Being Met

The goal of employing tribal members appears to be being met. The goal of providing the Tribe with some additional revenue also is being met.

CASE STUDIES #9-#12:

OTHER TRIBAL ENTERPRISES

#9 Sipayik Supersaver Store, Pleasant Point, Perry
#10 Wabanaki Mall/Convenience Store, Pleasant Point, Perry
#11 Township Grocery Store, Indian Township, Princeton
#12 Bingo Operation, Indian Township, Princeton

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1. BUSINESS HISTORIES

Meeting Reservation Needs

The Passamaquoddy Tribe has developed and managed several enterprises to serve the needs of the reservation populations. In addition to serving these needs, they are also intended to create jobs for tribal members and to produce additional revenue for the Tribe.

Sipayik Supersaver Store

The Sipayik Supersaver is a moderate-sized grocery store located on the Pleasant Point Reservation. It serves reservation residents, as well as the residents of the abutting communities of Eastport and Perry.

It was built in 1984 from funds received from a Community Development Block Grant and from the Tribe. The project had been planned for ten years, but toward the end of that period, it became highly politicized, with support and opposition centered on two candidates for Tribal Governor.

Because of this division of the Tribe, during the first few years of operation, only about 38% of the reservation population patronized the store. Projections had indicated that it would need to attract business from at least 55% of these people to break even on the operation. The used equipment the store had bought began to break down, the payroll was high, and inventory became outdated. For these and other reasons, revenues did not support the operation, and the Tribe had to subsidize it.

Management has changed five times in the six years since the store first opened. The volume of sales has increased, but the financial problems have continued, and the Tribe continues to subsidize it.

Wabanaki Mall

The Wabanaki Mall is a single-building complex intended to house a convenience store, a small restaurant, an automobile repair shop, and a craft store. It is located on Route 1 in

Perry, just west of the Pleasant Point Reservation. It was intended to serve reservation residents, as well as residents of Perry and the tourist traffic on Route 1. At the present time, only the convenience store is in operation, and the rest of the building is vacant.

The Mall was built in 1985, using funds from a Community Development Block Grant and from the Tribal Government. No market research was conducted to help the Tribe with targeting their intended markets, and the operation has been plagued with financial and management difficulties. The Tribe has continued to subsidize this operation, as well.

Township Grocery Store

This store operated at Indian Township from 1987 to 1989. It was a small "Mom and Pop" convenience store, located in a renovated building on the Indian Township Reservation. The renovations were financed by a Community Development Block Grant and tribal funds. This store, too, was plagued by management and financial problems and was finally closed in 1989. The Tribe had tried to create jobs for tribal members at the store and had as many as thirteen people on the payroll at one time. The vacant building is now used to house the Belfast Manufacturing plant.

Bingo Operation

The Bingo Operation is the exception in this listing of tribal enterprises in that it is self-supporting. It was started in 1986. The operation conducts small bingo games three evenings a week, with a high stakes game held about once a month. (The law permits no more than eighteen high stakes games to be held in a year.) It is estimated that this operation provides about $200,000 a year in profits to the Tribe, a portion of which are set aside for social programs.

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2. BUSINESS OPERATIONS

Sipayik Supersaver Store

Like the other tribal enterprises in this section, the Sipayik Supersaver has been used as a vehicle to employ tribal members. At the time of this report, it employed the equivalent of twelve full-time employees. Industry standards apparently suggest that a store of this size may operate successfully with no more than four full-time employees. For this reason and others, it continues to require tribal subsidy.

As noted above, management has been a consistent problem at the Supersaver. The store recently hired a new meat manager with a great deal of expertise. His meat cutting has apparently

attracted customers from the surrounding area, and the volume of business at the store may be increasing.

The Tribe has attempted to remove the store from the influence of politics by setting up a board of directors to oversee it. The board is appointed by the Tribal Council and is responsible for personnel decisions.

Wabanaki Mall

The convenience store at the Wabanaki Mall has had as many as nine tribal members on the payroll at one time. It, too, has had inconsistent management and continues to require tribal subsidy.

A new manager, hired in 1990, discovered that previous managers had failed to submit thousands of dollars worth of lottery tickets to the State for reimbursement. Many of the tickets had been left in the drawers for several years. However, because this operation, like the other reservation stores, is providing jobs for tribal members, the Tribe is willing to subsidize it, and there is no financial accountability.

Inventory at the store is poorly managed. Shelves are stocked principally with potato chips and snack items, and the coolers are filled mainly with alcoholic beverages. Staple food goods are sparse at the store, as are toiletries and personal items. There is no reserve inventory. The store now rents video-cassettes, but there is not enough mix of inventory to attract much in the way of impulse sales.

The Mall, too, is overseen by a tribally appointed board of directors. However, the board will need to give serious attention to management, appearance, and marketing to make the Mall a self-sustaining operation.

Bingo Operation

This operation is working and draws significant numbers of people to both its small and large stakes games. It is the opinion of some, however, that it, too, could benefit from more aggressive marketing efforts.

3. FINDINGS AND CONCLUSIONS

Employing Tribal Members

While the goal of employing tribal members is a noble one, the Tribe may not be able to afford to keep losing money in poorly managed operations. If that same amount of money were invested in more substantial operations, it might ultimately lead to employment of more members, while contributing to the overall

wealth of the Tribe. This approach takes time to yield the desired results, but it is more lasting and would provide more job security over the years.

Good Investment

The stores are probably a good investment and provide an important service for the reservation residents. They would provide a better service, however, if they were managed with attention to what people want and need, to keeping the shelves well stocked and clean and the inventory current, to maintaining the equipment in good working order, and to keeping the costs within the ability of the operation to pay.